VZCZCXRO1681
OO RUEHCHI RUEHDT RUEHHM RUEHNH
DE RUEHGO #1704/01 3210249
ZNY CCCCC ZZH
O 170249Z NOV 06
FM AMEMBASSY RANGOON
TO RUEHC/SECSTATE WASHDC IMMEDIATE 5430
INFO RUCNASE/ASEAN MEMBER COLLECTIVE
RUEHBJ/AMEMBASSY BEIJING 1249
RUEHBY/AMEMBASSY CANBERRA 0029
RUEHKA/AMEMBASSY DHAKA 4395
RUEHLO/AMEMBASSY LONDON 1874
RUEHNE/AMEMBASSY NEW DELHI 3621
RUEHUL/AMEMBASSY SEOUL 7127
RUEHTC/AMEMBASSY THE HAGUE 0564
RUEHKO/AMEMBASSY TOKYO 4734
RUEHCI/AMCONSUL CALCUTTA 0980
RUEHCN/AMCONSUL CHENGDU 0984
RUDKIA/AMCONSUL CHIANG MAI 0728
RUEATRS/DEPT OF TREASURY WASHDC
RUEHGV/USMISSION GENEVA 2940
RHEHNSC/NSC WASHDC
RUEKJCS/SECDEF WASHDC
RUEKJCS/JOINT STAFF WASHDC
RUCNDT/USMISSION USUN NEW YORK 0603
RUEHBS/USEU BRUSSELS

C O N F I D E N T I A L SECTION 01 OF 03 RANGOON 001704

SIPDIS

SIPDIS

STATE FOR EAP/MLS; PACOM FOR FPA, TREASURY FOR OASIA:AJEWELL

E.O. 12958: DECL: 09/21/2016
TAGS: ENRG ECON PGOV BM
SUBJECT: EYES ON BURMA'S PRIZE: NATURAL GAS

REF: NEW DELHI 7514

RANGOON 00001704 001.2 OF 003

Classified By: Econoff TLManlowe for Reasons 1.4 (b,d)

¶1. (SBU) Summary: New oil and gas discoveries off Burma's northwestern coast have prompted intense international maneuvering as representatives from India, China, Thailand and South Korea vie for investment options, production contracts and purchasing rights to the resources. Although the GOB has received signing bonuses from companies representing these countries, it recently halted negotiations in an attempt to prompt a new bidding war and obtain higher prices for the gas. Initial exploration has yielded mixed results, nevertheless, the potential reserves in the Bay of Bengal are enough to attract resource-hungry neighbors, dangling incentives. End summary.

The Prize

¶2. (U) Over the past year, exploration in the shallow waters off the coast of Rakhine State bordering Bangladesh has led to natural gas discoveries in three fields: Shwe ("gold" in Burmese) and Shwe Phyu ("white gold") in exploration block A-1 and Mya ("emerald") in block A-3. Daewoo International Corporation is the operator of both blocks and holds a 60% stake. Other consortium members are Korean Gas Corporation (10%), and India's ONGC Videsh (20%) and GAIL India (10%).

¶3. (U) Initial estimates of reserves in December 2005, conducted by Ryder Scott Associates, were updated in May 2006 by Gaffney Cline & Associates (GCA) of Singapore. GCA estimates that "gas in place" in the three fields ranges from 5.7 trillion cubic feet (tcf) to a high of 10 tcf. GCA's estimates of "recoverable reserves" range from 4.8 tcf to 8.6 tcf. Industry sources tell us that at least 5-6 tcf are necessary to make a field economically viable. Daewoo

president Lee Tae-Yong has claimed the fields could produce 600 million cubic feet (mcfd) of natural gas or 3.7 million tons of liquefied natural gas (LNG) per day for 20-25 years. Consortium partners have announced plans to drill two more appraisal wells in Mya field and one or two more exploratory wells in block A-3 in 2007.

¶4. (SBU) An oil industry source told us that exploration efforts would move to deeper waters where geological formations tend to hold more reserves, but at higher drilling costs, up to $1 million per day. With high global demand for drilling equipment, the consortium expects to wait nine months to get a deep water drilling ship, he said, with exploration costs of up to $40 million.

The Players

¶5. (C) Potential customers in India, China, Thailand, Korea and Japan are scrambling for new sources of gas. According to Lee Tae-Yong, production at the Bay of Bengal fields should begin as early as 2009, with projected annual revenues of $100-$155 million. The gas must be piped 37 km from the offshore rigs to one of two coastal cities, Sittwe (the capital of Rakhine State) or Kyaukphyu (on Ranree Island, off the coast). On October 18, a Korean embassy official told us that the GOB had recently halted negotiations over sales of gas from the new fields because the prices offered by India, China, South Korea and Thailand did not meet their expectations. The Indian Ambassador told the Charge that after two rounds the Thais offered the most, followed by the Indians and then the Chinese. However, the GOB did not consider the offers to be high enough, so will try individual negotiations with interested partners.

India

¶6. (U) India initially proposed a pipeline through Bangladesh. After refusing Bangladesh's conditions to allow the pipeline to traverse its territory, India focused on other transport options, including three overland routes, three sea routes, as well as constructing LNG or compressed natural gas (CNG) facilities. SUZ Tractebel, a European infrastructure consultant, helped prepare feasibility studies of the various options for India. Indian officials have hinted that the leading option is a 1,400 km onshore pipeline from Sittwe to join an existing pipeline at Bihar in India. The pipeline route would skirt the Bangladesh border through Rakhine and Chin states in Burma, then pass through Mizoram, Assam, and West Bengal to Bihar, at a cost of about $3 billion.

¶7. (C) On October 18, Indian DCM Manoj Bharti confirmed that the GoI would offer the GOB a $20 million Indian EXIM Bank soft loan to the GOB to modernize a local oil refinery. According to press accounts, India's Commerce Minister promised over US $100 million to develop the port at Sittwe, which would also give India's northeastern region access to the Bay of Bengal via the Kaladan River.

China

¶8. (SBU) In December 2005, the GOB signed an agreement with PetroChina for a feasibility study on an approximately 1,000 km overland pipeline from Kyaukphyu on Burma's coast, to Ruili on the China border, then on to Kunming in Yunnan Province. The Chinese also plan to assess the feasibility of a double pipeline to transport not only Burmese natural gas, but also Middle Eastern oil, to reduce the added costs and risks of transporting all of its fuel from the Middle East via the Straits of Malacca. The estimated cost of a pipeline from the coast to the Chinese border is $2 billion. A maritime industry contact, Capt. Rolf Meinken, told us recently that the Chinese have also offered to build an oil refinery in Chaung Tha, Irrawaddy Division, as an incentive

for the GOB to favor their bid. In addition, China plans to contribute $500 million to the development of a special economic zone and port facilities at Kyaukpyu.

Thailand

¶9. (SBU) Thailand is also interested in the Shwe and Mya fields and has proposed a 1,100 km pipeline from the fields to meet future Thai demand. According to an industry source, much of Thailand's short term gas needs will be met when a third pipeline is completed to transport gas from the Yadana and Yetagun fields in South East Burma, and when compressors on existing lines from these fields are added in 2007 or ¶2008. Currently, the Yadana offshore field supplies up to 600 mcfd of gas to Thailand, and Yetagun supplies 400 mcfd.

¶10. (SBU) Currently, Thailand pays only for 525 mcfd from the Yadana field, although the gas flow is greater. Discussions are underway for Thailand to begin to pay for 565 mcfd. A source from Chevron/Unocal told us that Thailand may use this offer to sweeten the bilateral relationship in anticipation of further deals from the new gas fields. Thailand has also indicated interest in hydropower dams along the Salween River, and construction has begun at Tasang. The recent Thai coup may affect these plans.

¶11. (SBU) Yadana, operated by Total (31.24%), with partners Chevron/Unocal (28.26%), Thai-government-controlled PTTEP (25.5%) and the Myanmar Oil and Gas Enterprise, MOGE (15%), has reserves estimated at 5.7 tcf. Burma does not use all of its allocated 20% of production, instead using only a small amount to run a cement factory and small gas turbine in

nearby Mon State. Once Thailand completes its third pipeline, Yadana will stabilize delivery at 600-650 mcfd. Current production revenues are divided according to a cost sharing agreement based on a number of variables. This year, the Chevron/Unocal rep for Burma estimated that the Burmese regime would earn about 60% of gross revenues, or over $480 million, from the Yadana consortium's approximately $820 million total revenues.

¶12. (SBU) The Malaysian company, Petronas, operates the other existing offshore field, Yetagun, with partners PTTEP, Nippon Oil and MOGE. Yetagun produces gas and condensate. Both fields export gas to Thailand under "take or pay" contracts. According to reports, PTTEP recently asked the GOB to increase gas supply by 25%, but sources at Petronas tell us that a more moderate increase of less than 10% is more likely. Gross revenues from Yetagun in 2006 are estimated at $970 million, shared among consortium partners. The most recent official statistics from FY2004-05 (Apr-Mar) show that the GOB earned over $1 billion from gas exports. Earnings will likely be higher over 2005-06, due to increased demand.

South Korea

¶13. (SBU) According to press reports, South Korea has proposed constructing an LNG plant to ship the liquefied gas from the Shwe and Mya fields. The cost to construct an LNG plant is estimated at USD 5 billion, according to industry sources at Petronas and Unocal. An embassy contact said that South Korea would continue to extend $20 million to the GOB annually in soft loans for infrastructure. Choi Jong Moon, the South Korean DCM, confirmed that Daewoo has come under fire for allegedly diverting explosives to the Burmese military, claiming it was for gas exploration operations. Korean courts have begun an investigation. Activists of the Shwe Gas Movement have designated November 15 as a day of action against Daewoo's involvement in the Shwe gas project, and called for protests outside South Korean embassies.

¶14. (SBU) Comment: While foreign investment in Burma has been falling in most sectors, rising world prices for natural gas have helped the regime mitigate its negative financial

impact, and have given the regime a steady income stream. The regime is skilled at playing one side off another in its domestic policymaking, and international interest in the West Bengal gas fields allows them to do the same with their neighbors. The prize will go to the one that can offer the most cash up front. The military needs cash now and does not care what is in the country's best long-term interest. End comment.
VILLAROSA